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## **USDA/Food Distribution**

### **Project No. 9**

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**Project No. 9:** CA Credit System Demonstration Project

**State Partner:** California

**Industry Partners:** KT Kitchens (approved), 20<sup>th</sup> Century Foods (approved), Schwans (proposal approved by the State and submitted to USDA for approval on 3/12/01), Ardella's Pizza (proposal pending), Don Lee Farms (cancelled due to ground meat issue), Pierre Foods (cancelled due to ground meat issue), Gold Star Foods (distributor).

**Scope:** Three co-ops are participating in this pilot: CUTE Co-op, San Gabriel Co-op and PINCO Co-op. They will be testing the credit system with four commodities: cheese, flour, oil and tomato paste. Approximately 7 truckloads of cheese, 3 of flour, 3 of oil and 3 of tomato paste will be delivered to processors and mostly processed into pizza products.

**Concept Tested:** Establishment of a "credit" inventory system in lieu of a "commodity" inventory system.

**Background:** Currently processors draw down on individual district inventories of each commodity ordered on their behalf. The draw down is based on the end product ordered and the amount of commodity in a given case of end product. Prices are charged based on the inventories of commodities an individual district has on the books. For example, when a district has an inventory of four commodity ingredients one discounted price is charged; when they run out of one ingredient another is charged. The processors must track each inventory by district and ensure the correct discounted price is charged. The process is streamlined under the pilot by converting the inventory to a credit account and establishing a single discount price for each end product.

**Project Description:**

1. Truckloads of various donated commodities are delivered to the processor.
2. Processor puts the donated commodity into commercial production.
3. Processor establishes a value for the donated commodity based on the November Commodity File. Processor maintains a "checkbook" balance for each school district/co-op to draw down on.
4. Processor establishes a "credit discount" for each product offered to the schools districts (listed on their EPDS).
5. School district/co-op purchases end products containing the commodity ingredients, from the distributor at the discounted price.
6. Distributor notifies processor of school district/co-op purchases.
7. Processor updates account balances of each school district/co-op.
8. Processor distributes a monthly report to the school district, distributor, and State for reconciliation purposes.

**Status:** KT Kitchens (approved Jan 2001), 20<sup>th</sup> Century (approved Jan 2001), Schwans (pending approval), Ardella's Pizza (pending submission), Don Lee Farms (postponed), Pierre Foods (postponed).

**Findings Thus Far:** None – too early, project began January 2001.

**Next Step:** State plans to visit each processor in the next few months to review the process and monitor documentation..

**Contact Party for further information:**

**State Distributing Agency:**

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